

IRS News Release

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IRS Releases Draft Instructions for Schedules M-3

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WASHINGTON — The Internal Revenue Service today released updated draft instructions for Schedules M-3 for the 2006 tax year and an updated draft of the new Form 8916 that will be filed by certain insurance-related corporations to reconcile taxable income.

The draft instructions, dated April 25, 2006, are for Schedules M-3 that are filed with Forms 1120, 1120-L, 1120-PC, 1120S and 1065, and Form 8916.

“LMSB stakeholders have provided many constructive suggestions to make Schedule M-3 a more effective tool for taxpayer reconciliation of book to tax income,” said Deborah M. Nolan, IRS Large and Mid-Size Division Commissioner. “Schedule M-3 improves transparency and disclosure, enabling IRS to better target and address areas of high risk and non-compliance.”

One important instruction focuses on the Form 1065 Schedule M-3 requirement to disclose “reportable entity partners.” Accordingly, partnerships must identify on the Schedule M-3 those partners that have themselves filed a Schedule M-3 that own or are deemed to own, directly or indirectly, a 50% or greater interest in the income, loss or capital of the partnership on any day of the partnership tax year on or after June 30, 2006. This reporting requirement is also imposed on the partners and is detailed in the Schedule M-3 instructions for Form 1065, 1120, 1120-L, 1120-PC and 1120S.

A change relating to cost of goods sold is reflected in the draft instructions for Schedule M-3 for Forms 1065, 1120 and 1120S. At the suggestion of stakeholders, a new required attachment will be used for cost of goods sold.

The updated draft of new Form 8916 released today expands upon the initial draft released on April 4, 2006, to provide clearer reconciliation by certain corporate groups that include an insurance company..

Looking ahead, IRS soon plans to introduce a new Form 1120-C that will replace Form 990-C filed by cooperative associations. Form 1120-C will also be filed by subchapter T cooperatives that previously filed Form 1120. In turn, these taxpayers will be required to file Schedule M-3 for Form 1120 if total assets at year end are \$10 million or more.

The draft Schedules M-3, Form 8916 and instructions can be found in the business section of IRS.gov, on the corporations page. The Web site also offers interested taxpayers a

subscription to the Schedule M-3 email news service so they can automatically receive future information about Schedule M-3.

IRS is seeking comments regarding the draft Schedules M-3, Form 8916 and instructions. Comments should be submitted by June 1, 2006 to:

Judy McNamara
Internal Revenue Service
860 E. Algonquin Road
Schaumburg, IL 60173
Email address: SchM3@irs.gov (preferred)
Telephone number: 312-566-2001, Ext. 9380